

**REPORT OF THE AUDIT OF THE
EDMONSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE EDMONSON COUNTY SHERIFF

**For The Year Ended
December 31, 2002**

The Auditor of Public Accounts has completed the Edmonson County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$63,961 from the prior calendar year, resulting in excess fees of \$269,030 as of December 31, 2002. Revenues increased by \$58,591 from the prior year and disbursements decreased by \$5,370.

Report Comments:

- The Sheriff Should Prepare Accurate Quarterly Reports
- The Sheriff Should Publish The Financial Statement Within Sixty Days After Close Of Year
- Excess Fees Should Be Paid To The County Each Month
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable N. E. Reed, Edmonson County Judge/Executive

Honorable Billy Joe Honeycutt, Edmonson County Sheriff

Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Edmonson County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable N. E. Reed, Edmonson County Judge/Executive
Honorable Billy Joe Honeycutt, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Prepare Accurate Quarterly Reports
- The Sheriff Should Publish The Financial Statement Within Sixty Days After Close Of Year
- Excess Fees Should Be Paid To The County Each Month
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 24, 2003

EDMONSON COUNTY
 BILLY JOE HONEYCUTT, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Grants		\$	95,754
State - Kentucky Law Enforcement Foundation Program Fund			11,391
State Fees For Services:			
Finance and Administration Cabinet	\$	25,467	
Cabinet For Human Resources		<u>90</u>	25,557
Circuit Court Clerk:			
Sheriff Security Service	\$	3,414	
Fines and Fees Collected		2,777	
Court Ordered Payments		<u>360</u>	6,551
Fiscal Court			65,223
County Clerk - Delinquent Taxes			2,592
Commission on Taxes Collected			86,250
Fees Collected For Services:			
Auto Inspections	\$	3,180	
Accident and Police Reports		258	
Serving Papers		14,961	
Carrying Concealed Deadly Weapon Permits		4,255	
Add-On Fees		20,703	
Miscellaneous		<u>271</u>	43,628
Interest Earned			<u>413</u>
Total Receipts		\$	337,359

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
 BILLY JOE HONEYCUTT, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements:

Carrying Concealed Deadly Weapon Permits	\$ 2,845
Miscellaneous	<u>260</u>
Total Disbursements	<u>\$ 3,105</u>
Net Receipts	\$ 334,254
Less: Statutory Maximum	<u>62,259</u>
Excess Fees	\$ 271,995
Less: Training Incentive Benefit	<u>2,965</u>
Excess Fees Due County for 2002	\$ 269,030
Payments to County Treasurer - Various Times Throughout the Year	<u>268,188</u>
Balance Due at Completion of Audit	<u><u>\$ 842</u></u>

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer monthly.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Drug Fund

The drug fund had a balance of \$990 as of January 1, 2002. Receipts were \$7,957 and disbursements were \$1,806. The balance as of December 31, 2002 was \$7,141.

COMMENTS AND RECOMMENDATIONS

EDMONSON COUNTY
BILLY JOE HONEYCUTT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

December 31, 2002

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Prepare Accurate Quarterly Reports

The Department for Local Government requires that the Sheriff submit quarterly financial reports. The Sheriff did file reports; however, these reports were not properly completed. The reports did not show the accumulated receipts and disbursements for the year. The first page of the report was not completed properly, because the summary and reconciliation did not include all accounts in the Sheriff's possession. We recommend that the Sheriff prepare the quarterly reports correctly and keep a year-to-date total that reconciles to the book and bank balances.

County Sheriff's Response:

Will concur.

2) The Sheriff Should Publish The Financial Statement Within Sixty Days After Close Of Year

The Sheriff's Financial Statement was approved by the Fiscal Court on July 14, 2002 and published in the local paper on August 7, 2003. KRS 424.220 states, "The Sheriff shall, within sixty (60) days after the close of the Sheriff's fiscal year, cause the financial statement to be published in full in a newspaper qualified under KRS 424.120." We recommend that the Sheriff settle with the County and publish the financial statement within sixty (60) days after the close of the year.

County Sheriff's Response:

We thought this was done, but will make sure of it in the future.

3) Excess Fees Should Be Paid To The County Each Month

The Sheriff's excess fee payments were not made on a monthly basis. The fiscal court pays almost all of the expenses of the Sheriff's office and requires that excess fee payments be made each month. We recommend that the Sheriff prepare a monthly statement of receipts, disbursements, and excess fees and present the statement and excess fee moneys to the fiscal court each month.

County Sheriff's Response:

Concur.

EDMONSON COUNTY
BILLY JOE HONEYCUTT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
December 31, 2002
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

County Sheriff's Response:

Agree.

PRIOR YEAR:

- The Sheriff Should Prepare Accurate Quarterly Reports
- The Sheriff Should Publish His Annual Financial Statement
- Excess Fees Should Be Paid To The County On A Monthly Basis
- Lacks Adequate Segregation Of Duties

These findings were not corrected and are repeated in the current year.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Edmonson County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Edmonson County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Prepare Accurate Quarterly Reports
- The Sheriff Should Publish The Financial Statement Within Sixty Days After Close Of Year
- Excess Fees Should Be Paid To The County Each Month



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Edmonson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 24, 2003

